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ABA Study Urges Banks to Adopt Image Processing

By JEANNE DUGAN COOPER

NEW YORK — Bankers who embrace image-processing technology are going to be ahead of the game in the next decade, according to a study commissioned by the American Bankers Association.

The study, a year in the making, marks the start of a drive by the industry's largest trade group to persuade its members to adopt the fledgling technology, in which paper documents are converted to electronic form for more efficient transmission and processing.

"Image processing is the first major opportunity for improvement in cost-efficiency and cost-effectiveness in handling of checks and paper since high-speed processing was introduced 15 to 20 years ago," said John Shain, president of Littlewood, Shain & Co., one of two consulting firms that conducted the study.

Mr. Shain's company worked with Andersen Consulting, a division of Arthur Andersen & Co., which serves banking and image-processing industry clients. The report is scheduled for publication at the end of this month.

The report will sell for $197. It will be followed up with two seminars in January, where bankers will pay $497 each to learn why and how to enter the world of image technology.

The ABA's overall message is simple: Bankers with the ability to capture, store, and electronically transmit images will have a competitive edge in the 1990s.

The main advantage of image processing is that it gives banks the ability to eliminate much of the paper involved in such high-volume processing operations as checks and lockbox payments. Some banks have already started using the technology in monthly ac-

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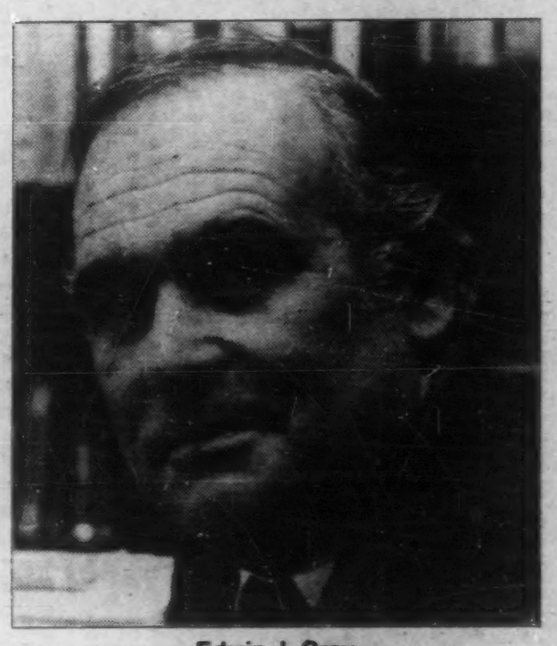
Gray: Regan, 3 Senators Pushed Keating Cronies for Bank Board

By JIM McTAGUE

WASHINGTON — Edwin J. Gray, the nation's top thrift regulator from 1983 to 1987, charged Tuesday that three senators and former White House Chief of Staff Donald T. Regan joined forces in trying to pack the Federal Home Loan Bank Board with associates of Charles H. Keating Jr., whose collapsed thrift could cost the government up to $2 billion.

In explosive testimony before the House Banking Committee, Mr. Gray also alleged that Rep. Charles Pashayan Jr., R-Calif., "lobbied me hard in numerous telephone calls and in other communications" in 1985 to drop proposed restrictions on thrift real estate investments that would have hurt Mr. Keating's Lincoln Savings and Loan Association in Irvine, Calif.

"He received sizable contributions from Mr. Keating," Mr. Gray told the committee, which is investigating why M. Danny Wall, director of the Office



Edwin J. Gray
Former Bank Board Chairman

of Thrift Supervision, allowed the S&L to remain open for a year while it lost billions of dollars. Mr. Gray was formerly chairman of the Bank Board, the

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American Express, Pressed by Banks, Seeks New Image for Corporate Cards

By YVETTE D. KANTROW

NEW YORK — American Express Travel Related Services Co. will bestow a new look on its corporate card next year as it tries to thwart inroads by the banking industry into the business market.

The redesigned card, which will have the word "corporate" emblazoned across its front, will be easily distinguishable from its consumer counterpart, American Express executives said. The move comes at a time when MasterCard International and Visa U.S.A. are chipping away at a market that until a few years ago was virtually controlled by American Express.

"This change in design symbolizes the coming of age of the corporate card," said Roger Ballou, president of American Express Travel and Travel Management Services.

The revamped corporate card will sport the classic American Express centurion symbol and will be the same green color as the company's standard charge card. The centurion logo will be moved from its traditional place at the center to the upper left corner of the card. The centurion's location also was

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Weak Assets Of 150 Thrifts Surprise FDIC

But Data May Not Indicate Trend, Agency Official Says

By RICHARD RINGER

CHICAGO — The Federal Deposit Insurance Corp. has discovered worse than expected asset quality in an examination of nearly 150 savings and loans, an agency official said on Tuesday.

But Paul Fritts, director of supervision for the FDIC, cautioned that it is too early to determine whether the preliminary findings on asset quality are widespread throughout the thrift industry. "We may not have been exposed to enough thrifts to say if this is a trend," said Mr. Fritts.

Among the thrifts that have come under scrutiny lately for asset quality, Mr. Fritts said, many of the assets that examiners identified as potential problems ended up as nonperforming or past due. He added that it would be premature to extrapolate those findings to the industry, because the thrifts the FDIC selected to examine first are institutions where the agency anticipated finding problems.

The thrifts examined so far by the FDIC, which Mr. Fritts did not identify, are spread throughout the country and are of varying asset size.

"The general quality of assets- . . . does not seem to be good as we thought initially," Mr. Fritts told reporters during a news conference at the annual convention of the U.S. League of Savings Institutions here.

Most of the questionable assets are in the commercial real estate portfolios of the examined thrifts, said Mr. Fritts. "Those loans probably should not have

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Today

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Regulators disagree over whether the Resolution Trust Corp. needs more working capital. ____ 3

Forty percent of chief executives and 52% of chief information officers are unhappy with technology's contribution to business plans, a study finds. ____ 2

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Kenneth D. Seaton, chairman of the U.S. League of Savings Institutions, is being criticized by the major shareholder of the thrift he heads. ____ 15

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Technology Falls Short for Most CEOs, Study Says

By RICHARD LAYNE

NEW YORK — Less than half of chief executive officers believe that the millions they spend on technology actually support their companies' business plans, according to a survey by an international consulting firm.

Culture and organization, not technical problems, stand in the way of full exploitation of information technology, the study by United Research Co. of Morristown, N.J., found. The perceived hindrances were equally prevalent in banks and nonbanks surveyed.

"We perceive a tremendous focus on technology, but little on dealing with those cultural issues," said Thomas R. Madison, vice president at the research and consulting organization. To ignore the cultural issues, he added, is to invite trouble in the form of wasted resources and missed opportunities.

"Banks can expect limited return on the technology investment unless they deal with the cultural issues," he said.

The study showed that 40% of CEOs and 52% of chief information officers are unhappy with the contribution technology makes to business plans.

"Senior executives are frustrated," said Mr. Madison. "They've invested billions of dollars over the past 10 years and they don't see the return they expected." Technology budgets at large banks exceed $100 million.

The United Research study included a poll by Louis Harris & Associates of 100 CEOs and 202 chief information officers – often called CIOs – of the top 500 manufacturing and the top 500 service sector companies. Of the respondents, 36% were in banking or financial services.

Mr. Madison said that there was no statistical difference in the way banks and other corporations view technology.

The CEOs and CIOs cited five cultural barriers to improving the efficacy of information technology resources: A failure to change some of the basic ways of doing business, people's failure to take the time to learn and use the existing systems, a failure to train people properly, an organizational culture that resists change, and turf battles that impede change.

These issues may loom larger in the future, when banks will have to improve customer service to gain a competitive advantage. Three-quarters of the bankers interviewed believe they will be spending more money over the next five years on systems that directly touch upon consumers, particularly sales and marketing systems and other customer service applications.

While chief information officers share CEOs' beliefs that technology usually fails to support the business plan, technologists also point the finger at senior management.

"Most IS [information systems] executives feel that they are not nearly as involved in the business planning process as they should be," said Mr. Madison.

William Synnott, a consultant with Nolan, Norton & Co. in Lexington, Mass., and a former top information systems executive at Bank of Boston, distinguishes between a CIO's reacting to a business plan and helping to develop a plan.

Reacting alone does nothing to tap that executive's knowledge and ability to support the business, Mr. Synnott said. He recommends that a business plan be drawn up with input from a chief information officer – if a bank wants to use information technology effectively. ■

Has Technology Paid Off?

Executives were asked if they agreed with these statements:

	Chief executive officers	Chief information officers
Information resources support business plans	40%	52%
More business plans should be shared with systems executives	57%	61%
Business plans are formally aligned with information resources	68%	45%
System obsolescence is a competitive problem	70%	50%
Adequate return-on-investment measures are lacking	78%	94%
Poor systems design is barrier to corporate growth	51%	66%
System investments have improved overall performance	98%	94%
System investments have improved executives' ability	93%	91%
System investments have improved customer satisfaction	90%	91%

Responses based on a poll by Louis Harris & Associates of 100 CEOs and 202 chief information officers of the top 500 manufacturing and top 500 service sector companies in the United States.

Source: United Research Co.

Tax Rule Eased On Bank Losses From LDC Debt

By JAMES R. KRAUS

NEW YORK — In an easing of policy, the Internal Revenue Service has ruled that, for tax purposes, banks can carry forward some losses related to Third World debt reduction over 15 years rather than the normal five years.

The ruling applies to losses suffered when banks exchange loans for bonds at a discount to face value or for securities at lower interest rates.

The ruling came in response to queries from banks on how to treat losses on Mexican loans exchanged for bonds under a debt restructuring agreement concluded in July.

Such debt-reduction bonds are a key element in the Mexican restructuring, considered the prototype of Treasury Secretary Nicholas Brady's plan to alleviate Third World debt.

Analysts said the ruling benefits banks by giving them 10 extra years to deduct losses from future rather than past taxable income. But they also said that it left several loose ends and did not respond to requests by banks to deduct foreign loan losses from domestic taxable income.

'Helpful,' but Not Enough

"The ruling provides significant guidance on the appropriate tax loss," said J. Richard Harvey Jr., a partner in the accounting firm of Price Waterhouse in New York. "However, there still are many tax issues surrounding the Mexico exchange that need clarification. The ruling is helpful but not an all-encompassing answer."

When banks incur losses by exchanging Third World loans for lower-value bonds, the IRS will allow them to deduct these losses from taxable income for three years backward and 15 years forward. For Third World loan losses caused by unilateral decisions by banks, the period for tax deductions remains 10 years back and five years forward.

The Mexican agreement gives banks the options of exchanging loans for bonds bearing the same interest at a 35% discount to face value or of exchanging the loans at face value for bonds at lower interest. A third option allows banks to provide new money.

'Pretty Good News'

The IRS ruling permits banks to decrease their taxable income by either the 35% discount on principal or the lost interest income. This is determined by comparison with with applicable federal rates, now about 8% for 30-year Treasury bonds.

"This should be pretty good news for banks, because most are going to realize losses and they'll be able to realize a tax deduction," said an international tax specialist at a large accounting firm who declined to be identified.

One accounting executive said the ruling was firmed up after a meeting of Treasury officials and senior bankers in Washington in mid-September.

"Most of the banks were in favor of the 3 carryback and 15 carryforward," said the executive. "Many banks don't have the ability to utilize a loss during a carryback period. I'm not aware of any bank that objected."

However, accountants noted that ruling does not grant banks any tax benefits for providing new money. The Mexican agreement assumed that banks would provide new money equal to 5% of the $52 billion in loans being restructured, they said. ■

Consumer Credit Nearly Stagnant, Fed Data Show

By ROBERT TRIGAUX

WASHINGTON — Consumer installment credit for the month of September rose a paltry $606 million to $703.6 billion, after rising $2.66 billion in August, the Federal Reserve said on Tuesday.

"These are both small numbers," Peter P. Kozel, senior vice president and chief economist at Shawmut National Bank in Boston, said of the monthly increases. "They used to be $5 billion and $10 billion," he said, and they reflect the shrinking of consumer spending in a slowing economy.

Federal funds crept down below 8¾% on Tuesday, reflecting what many economists see as both continued easing of monetary policy by the Fed and decreasing demand for credit. Fed funds traded at 8⅝% for much of Tuesday afternoon.

"We have just been trading at a little bit over 8¾, and we now may trade just over 8½" until the Fed can gauge economic trends, Mr. Kozel said.

One key sector, automobile credit, fell $842 million in September after rising a mere $7 million in August, the Fed reported. Economists said the figures reflect ongoing weakness in automobile sales, but they warned that October figures will be significantly worse.

Revolving credit rose $756 million in September, after a $3.37 billion gain in August. Mobile home credit declined in both months – by $91 million in September and $692 million in August.

Economists warned that the monthly consumer installment credit figures do not include credit granted in the form of home-equity loans – the fastest-growing sector of consumer credit. "It's becoming less of a useful statistic," Mr. Kozel said of the monthly figures. ■

FINANCIAL TECHNOLOGY UPDATE

A new item processing solution has significantly reduced labor costs for Liberty National Bank, Louisville, Kentucky. NCR's 7770-3000 Intelligent Multi-Pocket System, running a software application from Data Management Products of Omaha, Nebraska has eliminated 65 hours of return item processing labor. All 42 Liberty branches have been converted to centralized processing two months ahead of schedule.

The Financial TOWER System 2 (FTS 2) improves customer service while increasing the number of product offerings. Star Bank, a Cincinnati based financial institution, recently chose NCR's Financial TOWER System 2 for its new branch automation system. In addition to improved customer service and more product offerings, Star Bank wanted to increase productivity. They found that with their new NCR system in place, platform productivity grew in excess of the 20% they expected.

NCR introduces color CRTs for ATM use in August. 5070 Interior ATMs, 5084 Cash Dispensers and 5085 Extra-Function Terminals will all be capable of utilizing these new screens. A PC is installed to drive the EGA monitor which delivers vibrant colors. Standard graphics are provided or PC Paintbrush can be used to design new graphics or modify existing programs. Plus, the CRT's potential for "advertising" at the ATM site is impressive.

The ITX Windows Software System enables multiple host system jobs to be managed through one PC. As part of the new System 10000 software tool suite, ITX Windows allows users of NCR's Banker 80 II System to handle the after-hours work of up to 9 institutions in a multi-bank installation. In addition, loan officers can use the Loan Pricing system and review applicants' account records simultaneously. ITX Windows also supports software development with edit, graphics, view, and window creation capabilities.

For additional information on these new developments from NCR, phone 1-800-CALL NCR.

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LEGAL ALERT

By TOM LEANDER

Court in Nebraska Clears Continental Of RICO Charge

A Nebraska federal court has overturned a jury decision convicting Chicago-based **Continental Bank** of violating the Racketeer Influenced and Corrupt Organizations Act.

The decision, coming at a time when the Justice Dept. has imposed new limits on RICO, is likely to be cited as a precedent by defending lawyers in other RICO cases against banks.

The plaintiffs in the case were investors a Nebraska-based limited partnership in oil and gas that went bankrupt. They charged that Continental knowingly helped the promoters of the concern, K&S Partnership, in creating a false business history that encouraged investors to pour funds into the company. Continental had been a participant in loans made by the original lender, Penn Square Bank.

During the jury trial, the plaintiffs argued that Continental's corporate policies encouraged the alleged crimes of its employees. The federal court found that charges of fraud could be linked to individual employees alone, and that Continental was not liable for their alleged misdeeds.

• • •

FIRREA Fallout: Law Firms Face Conflict-of-Interest Suits

The realignment of the regulatory system under the Financial Institutions Reform, Recovery, and Enforcement Act has created conflict-of-interest problems for one major law firm and others that once represented the Federal Deposit Insurance Corp.

Dallas-based Jenkens & Gilchrist, for instance, has represented the FDIC over the past three years in a number of cases, including several directors-and-officers liability lawsuits.

But the firm was sued by the Federal Savings and Loan Insurance Corp. for alleged malpractice during a case involving a failed thrift, **State Savings and Loan** of Lubbock, Tex., that was taken into FSLIC receivership.

Jenkens & Gilchrist is now negotiating a settlement with the FDIC, which was merged with FSLIC as a result of the thrift-rescue legislation.

The FDIC says it is modifying its rules for outside counsel now that the thrift law has created many potential conflict-of-interest problems.

Editor's Note:

More than ever, court decisions are redefining the boundaries and practices of the banking community. To keep pace with these decisions and to expand coverage of the banking-law profession, the American Banker is introducing Legal Alert, a column that will appear every other Wednesday.

• • •

Cohen, a Mergers Specialist, Is Top-Paid Banking Lawyer

Does $1.7 million in annual income sound like good money? That's what **Sullivan & Cromwell** lawyer **H. Rodgin Cohen,** the merger-and-acquisitions specialist who represented Bank of New York during the takeover of Irving Trust, raked in last year.

H. Rodgin Cohen

Mr. Cohen was the highest paid banking lawyer on a *Forbes* magazine list of the nation's 71 highest paid corporate attorneys, published this week. The only other banking lawyer that made the list was Washington-based **Clifford & Warnke** partner Robert Altman.

What the list also reveals: Banking lawyers are not raking in cash at the same rate as their compatriots in mergers-and-acquisition law. And their 1988 paychecks hardly held a candle to those of ambulance-chasing lawyers; who earn their pay through suits involving personal injury. Some earned more than $20 million last year.

Manufacturers Hanover Held Liable in Check-Forgery Case

Banks in New York are liable to pay damages if they honor false checks without taking proper measures to insure that the checks are not forged, the New York State Court of Appeals has ruled. **Manufacturers Hanover Trust Co.** was ordered to repay more than $48,000 to the **Putnam Rolling Ladder Co.**, Putnam, N.Y., for checks forged by the company's bookkeeper.

Manufacturers had argued that it should not have to pay because Putnam had a year to catch the forgeries themselves. But Putnam swayed the court by introducing evidence that Manufacturers processed so many checks each day that tellers would have only four seconds to verify each check with a signature file.

The court held that the Manufacturers check-screening process was superficial and ruled that account holders can only be held liable for forged checks if banks prove they have taken proper steps to verify them.

• • •

Thrift Files Junk-Bond Suit Against Boesky and Drexel

In a suit that may spur lawsuits by S&Ls that have lost money in junk-bond investments, a California thrift has filed a complaint in a California district court charging that arbitrager Ivan Boesky – who has been convicted on insider-trading charges – and Drexel Burnham Lambert Inc. urged it to buy $500 million in junk bonds that the complaint said "lacked investment merit." The thrift has since lost $11 million on the bonds, according to the complaint.

The suit involves **Financial Corporation of Santa Barbara** and its **Santa Barbara Savings and Loan Association** subsidiary. Mr. Boesky, who was a shareholder in FCSB, acted in bad faith when he advised the thrift to buy the bonds in 1983 and 1984, according to the complaint. ■

COMMENT

Steps Toward Building Respect for Marketing

By ROBERT P. CADY
Partner, Exchange Resources Ltd.

I heard an interesting story from a colleague the other day. It seems that a major savings bank in upstate New York had experienced another round of cost cutting. According to him, the first major cut was firing the market-research department.

When things get tough, top management lops off the excess baggage, and often this means anything with the word "research" in it. It must be scary to have the title "director of market research" when the rumors start to fly that cost cutting is about to start.

Why is it that in today's highly competitive banking market – where the rhetoric is flowing about improving product distribution, and upgrading sales and marketing capability, and improving market intelligence – that the toughest sell is still the budget for the resources that turn market information into market intelligence?

One reason is that very few top managers have any experience with marketing. Although lip service is given, down in the deepest part of the CEO's heart is an aversion that equates marketing with sales and sales with hucksterism – something that good people shy away from.

Research has a correlation with inactivity in this CEO's mind, a kind of slothful attention to detail with no responsibility for translating numbers into action. Action is the watchword of the new management style of the 1980s, led by new bibles of management style such as "In Search of Excellence."

How many top managers have asked the question, "just what do those research people do?" Worse, there are few in the bank that have an answer. And so, the axe falls. Ask a CEO about market information and his comment is, "Our marketing people handle that."

The Wrong Numbers

Translation: That's not management stuff. We work on the important things like asset ratios and worry about our stock-price dip. The concept of market information and its uses and value is way down the line. The numbers are only of interest if they are on the balance sheet.

Article after article in banking journals points out that product development and distribution is a new ball game for banks. New technology allows products to be delivered by phone, by PC, by fax, by credit card, by mail, either next door or miles from home. Competitors, who do not have the chain of established distribution centers, a.k.a. the branches, do not seem to be much bothered by the lack of bricks and mortar.

Many of these competitors are, yes, nonbanks. Those organizations may have a finance person at the helm these days, but close at hand to this CEO, in an office that might be fancier, and with a salary that is right there at the top, is the person who handles marketing.

Enter Lee Iococca who probably knows his way around a balance sheet better than most, but whose favorite piece of paper is his periodic market-share report, closely detailed, with slippage highlighted along with success. These people own real businesses and in a real business, marketing is firmly involved in the decision process.

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